

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>HESPERIA COMMUNITY SCHOOLS</b>	County <b>NEWAYGO</b>
Fiscal Year End <b>June 30, 2006</b>	Opinion Date <b>August 10, 2006</b>	Date Audit Report Submitted to State <b>OCTOBER 6, 2006</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures..
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) <b>SINGLE AUDIT</b>	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>Karl L. Drake, CPA</b>		Telephone Number <b>517-937-9333</b>	
Street Address <b>3775 Kimmel Road</b>		City <b>Horton</b>	State <b>MI</b>
		Zip <b>49246</b>	

Authorizing CPA Signature <i>Karl L. Drake</i>	Printed Name Karl L. Drake	License Number 1101016526
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# **HESPERIA COMMUNITY SCHOOLS**

## **FINANCIAL STATEMENTS**

**JUNE 30, 2006**

# **HESPERIA PUBLIC SCHOOLS**

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## **LIST OF PRINCIPAL INDIVIDUALS**

**JUNE 30, 2006**

### Board of Education

Karen Carter	President
Todd Jacobs	Vice President
Gary Slate	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Sharron Tozer	Board Member
Ken Muckey	Board Member
Mike Anderson	Board Member
Sam Manino	Board Member

### Management

Jack Mansfield	Superintendent
Patricia Budde	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm	Attorney
Law, Weathers and Richardson	Attorney

# HESPERIA PUBLIC SCHOOLS

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3775 Kimmel Road  
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax  
Email: [kldrake@voyager.net](mailto:kldrake@voyager.net)

## **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hesperia Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 31 through 33 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education  
Hesperia Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hesperia Community School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.  
Certified Public Accountant

August 10, 2006



# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2006. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

### Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hesperia Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Food Service Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

*District-wide Financial Statements*

*Fund Financial Statements*

Notes to the Basic Financial Statements

*(Required Supplemental Information)*

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Federal Financial Assistance

### Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, child care, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

### **Reporting The School District's Most Significant Funds - Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Reporting The School District's Fiduciary Responsibilities -The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I	Governmental Activities (In Millions)	
	2006	2005
<b>ASSETS</b>		
Current and other assets	\$ 2.0	\$ 2.2
Capital assets - Net of accumulated depreciation	7.5	7.7
<b>TOTAL ASSETS</b>	9.5	9.9
<b>LIABILITIES</b>		
Current liabilities	2.1	2.2
Long-Term liabilities	7.8	7.8
<b>TOTAL LIABILITIES</b>	9.9	10.0
<b>NET ASSETS</b>		
Invested in property and equipment - Net of related debt	-0.4	-0.3
Restricted	0.2	0.2
Unrestricted	-0.2	0.0
<b>TOTAL NET ASSETS</b>	\$ -0.4	\$ -0.1

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$-0.4 million at June 30, 2006. Capital assets, net of related debt totaling \$-0.4 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the

acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$-0.2 was unrestricted.

The balance in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2	Governmental Activities (In Millions)	
	2006	2005
<b>REVENUE</b>		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.3
Grants and categoricals	1.8	2.4
General Revenue		
Property taxes	1.5	1.3
State foundation allowance	6.8	6.5
Other	0.1	0.1
<b>TOTAL REVENUE</b>	<b>\$ 10.5</b>	<b>\$ 10.6</b>
<b>FUNCTION/PROGRAM EXPENSES</b>		
Instruction	\$ 6.1	\$ 6.1
Support Services	3.0	3.1
Food Services	0.5	0.4
Athletics	0.2	0.2
Interest on long-term debt	0.3	0.4
Depreciation (unallocated)	0.5	0.4
Community Service	0.1	0.2
<b>TOTAL FUNCTION/PROGRAM EXPENSES</b>	<b>10.7</b>	<b>10.8</b>
<b>INCREASE &lt;DECREASE&gt; IN NET ASSETS</b>	<b>\$ -0.2</b>	<b>\$ -0.2</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$10.7 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1.8 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.5 million in taxes, \$6.8 million in State Foundation Allowance, and with other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$0.2 million. Key reasons for the change in net assets were general increases in cost and the repayment of bond and loan principal. The decrease in net assets differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$0.5 million, which is a decrease of \$0.1 million from last year. The primary reasons for the decrease are expenditures. The General Fund, our principal operating fund, saw the fund balance decrease \$106,456 to \$238,324.

- The Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately \$10,546.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$18,636. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

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## General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased by \$809,448. The accounts that changed were a decrease in interest earnings, additional revenue in grants, and an increase in State Aid and federal revenue. Many of the grant amounts were not known when the original budget was adopted, therefore requiring amendment after those amounts were determined.
- Budgeted expenditures were increased \$1,114,506 to cover additional grants that were received after the beginning of the school year, and also to budget for carryover amounts that were not known at the time the original budget was adopted.

When reviewing fund balance, the final amended budget was \$126,563 and the actual fund balance was \$238,324. This represents a budget variance of \$111,761 in K-12 funds.

## Capital Asset And Debt Administration

### Capital Asset

At June 30, 2006, the School District had \$13.6 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$21,355 or 1 percent, from last year.

	2006	2005
Land	\$ ---	\$ ---
Buildings	8,726,417	8,770,851
Buses and Other Vehicles	1,241,340	1,192,258
Furniture and Equipment	3,634,105	3,660,108
Total Capital Assets	13,601,862	13,623,217
Less Accumulated Depreciation	6,143,691	5,982,503
Net Capital Assets	\$ 7,458,171	\$ 7,640,714

The additions for this year included school buses and technology equipment. Debt was issued for these additions.

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Debt

At the end of this year, the School District had \$7.9 million in bonds and notes outstanding versus \$7.9 million in the previous year - a decrease of 0 percent. Those bonds and notes consisted of the following:

	2006	2005
General Obligation Bonds	\$ 7,550,374	\$ 7,844,955
Notes Payable	331,979	96,068
Total	<u>\$ 7,882,353</u>	<u>\$ 7,941,023</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$7.9 million is below the statutorily imposed limit.

Other obligations include employee-compensated absences. More detailed information about long-term liabilities is presented in the notes to the financial statements.

### Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2006 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006-07 fiscal year is 25 percent of the February 2006 student count and 75 percent of the September 2006 student count. The 2006-07 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-07 school year, we anticipate that the fall student count will be very close to the estimates used in creating the 2006 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. As of late August, the Governor signed the School Aid Bill. The District will receive a foundation allowance increase of \$210, which represents a 3.05% increase as well as an equity payment of \$23 per pupil. The total increase in the foundation allowance including the equity payment would amount to a 3.39% increase over the 2005-06 fiscal year. The equity payment is for districts that will have a 2006-07 foundation allowance of less than \$7,360. This increase in the foundation allowance was included in the revenue projections for the District's 2006-07 budget using an increase of \$225, without considering the equity payment. There is also the possibility of a mid-term proration. The \$210 per pupil increase as well as the equity payment is excellent given the state of the total budget, but a large portion of this increase will be taken up by the District's increase costs in retirement and health care.

An increase in the foundation allowance also results in the employee groups receiving ½ of the percentage increase in that foundation allowance in the form of a wage increase. Employee groups therefore will receive a wage increase of 1.695% for 2006-07. Retirement has increased overall approximately 11.18% for SET and 1.27% for MESSA. The District has settled contracts for both the HEA and HESP groups. These contracts will expire in June of 2008 for the HESP (Support Union) and in August of 2008 for the HEA (Teacher's Union).

The budget situation will continue to be monitored very closely in the 2006-07 school year. The State's revenue picture is still a concern, and will have a dramatic effect on the budget if the revenue is not available as projected in the State Aid Act.

### **Contacting The School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hesperia Community School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 96 S. Division Street, Hesperia, Michigan 49421.



# HESPERIA COMMUNITY SCHOOLS

## District-Wide Financial Statements

### STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 596,637
Due From Other Governmental Units	1,403,384
Accounts Receivable	243
Inventories	53,807
Prepaid Expenditures	---
Total Current Assets	<u>2,054,071</u>
Non-Current Assets	
Capital Assets	13,601,862
Less: Accumulated Depreciation	<u>-6,143,691</u>
Total Non-Current Assets	<u>7,458,171</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 9,512,242</b></u>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts Payable	\$ 202,236
Accrued Salaries and Expenses	929,210
Accrued Interest	99,137
Due to Other Governments	5,521
Deferred Revenue	436,935
Bonds and Notes Payable, Due within One Year	<u>441,725</u>
Total Current Liabilities	<u>2,114,764</u>
Non-Current Liabilities	
Bonds and Notes Payable	7,529,445
Compensated Absences and Severance Pay	<u>260,000</u>
Total Non-Current Liabilities	<u>7,789,445</u>
<b>TOTAL LIABILITIES</b>	<u>9,904,209</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	-424,182
Restricted for Debt Service	177,054
Unrestricted	<u>-144,839</u>
<b>TOTAL NET ASSETS</b>	<u><b>-391,967</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 9,512,242</b></u>

See Accompanying Notes to Financial Statements.

# STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental Activities
		Charges For Services	Operating Grants	Net <Expense> Revenue and Changes in Net Assets
Governmental Activities				
Instruction	\$ 6,131,951	\$ 4,155	\$ 1,362,007	\$ -4,765,789
Support Services	3,018,807	121,328	26,934	-2,870,545
Food Services	455,973	135,592	308,843	-11,538
Athletics	233,613	26,710	---	-206,903
Community Services	86,514	22,956	96,369	32,811
Interest on Long-Term Debt	331,481	---	42,805	-288,676
Depreciation (Unallocated)	469,635	---	---	-469,635
Total Governmental Activities	<u>\$ 10,727,974</u>	<u>\$ 310,741</u>	<u>\$ 1,836,958</u>	<u>-8,580,275</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				701,530
Property Taxes, Levied for Debt Service				768,252
State of Michigan Aid, Unrestricted				6,816,945
Interest Earnings				22,649
Other				<u>15,712</u>
Total General Revenue				<u>8,325,088</u>
CHANGE IN NET ASSETS				-255,187
NET ASSETS - BEGINNING OF YEAR				<u>-136,780</u>
NET ASSETS - END OF YEAR				<u><u>\$ -391,967</u></u>

See Accompanying Notes to Financial Statements.

# HESPERIA COMMUNITY SCHOOLS

## Fund Financial Statements

### BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 411,863	\$ 38,396	\$ 146,378	\$ 596,637
Accounts Receivable	---	---	---	---
Due from Other Governmental Units	1,403,107	---	277	1,403,384
Due from Other Funds	269	36,877	35,920	73,066
Inventories	51,947	1,860	---	53,807
Prepaid Expenditures	---	---	---	---
<b>TOTAL ASSETS</b>	<b>\$ 1,867,186</b>	<b>\$ 77,133</b>	<b>\$ 182,575</b>	<b>\$ 2,126,894</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 189,894	\$ 12,342	\$ ---	\$ 202,236
Accrued Salaries and Withholdings	929,210	---	---	929,210
Due to Other Funds	72,823	---	---	72,823
Due to Other Governments	---	---	5,521	5,521
Deferred Revenue	436,935	---	---	436,935
<b>TOTAL LIABILITIES</b>	<b>1,628,862</b>	<b>12,342</b>	<b>5,521</b>	<b>1,646,725</b>
<b>FUND BALANCES</b>				
Reserved for Inventories	51,947	1,860	---	53,807
Reserved for Debt Service	---	---	177,054	177,054
Unreserved, Designated	33,269	---	---	33,269
Unreserved and Undesignated	153,108	---	---	153,108
Unreserved and Undesignated, Food Services	---	62,931	---	62,931
Unreserved and Undesignated, Athletics	---	---	---	---
<b>TOTAL FUND BALANCES</b>	<b>238,324</b>	<b>64,791</b>	<b>177,054</b>	<b>480,169</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,867,186</b>	<b>\$ 77,133</b>	<b>\$ 182,575</b>	<b>\$ 2,126,894</b>
<b>TOTAL GOVERNMENTAL FUND BALANCES</b>				<b>\$ 480,169</b>
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
Cost of the Capital Assets				\$ 13,601,862
Accumulated Depreciation				<u>-6,143,691</u>
				<u>7,458,171</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund				
Bonds and Notes Payable				-7,882,353
Compensated absences				-348,817
Accrued interest is not included as a liability in governmental funds				<u>-99,137</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>				<b>\$ -391,967</b>

See Accompanying Notes to Financial Statements.

# STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	General	Food Service	Other Non-major Governmental Funds	Totals
<b>REVENUE</b>				
Local Sources	\$ 979,700	\$ 136,584	\$ 798,969	\$ 1,915,253
State Sources	7,498,959	33,254	42,805	7,575,018
Federal Sources	706,927	275,589	---	982,516
Miscellaneous	---	---	---	---
<b>TOTAL REVENUE</b>	<b>9,185,586</b>	<b>445,427</b>	<b>841,774</b>	<b>10,472,787</b>
<b>EXPENDITURES</b>				
Current				
Instruction	5,928,675	---	233,613	6,162,288
Supporting Services	3,018,807	455,973	---	3,474,780
Community Services	86,514	---	---	86,514
Debt Service	51,143	---	833,700	884,843
Capital Outlay	287,092	---	---	287,092
<b>TOTAL EXPENDITURES</b>	<b>9,372,231</b>	<b>455,973</b>	<b>1,067,313</b>	<b>10,895,517</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-186,645</b>	<b>-10,546</b>	<b>-225,539</b>	<b>-422,730</b>
<b>OTHER FINANCING SOURCES &lt;USES&gt;</b>				
Loan Proceeds	287,092	---	---	287,092
Operating Transfers In	---	---	206,903	206,903
Operating Transfers Out	-206,903	---	---	-206,903
<b>TOTAL OTHER FINANCING SOURCES &lt;USES&gt;</b>	<b>80,189</b>	<b>---</b>	<b>206,903</b>	<b>287,092</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-106,456</b>	<b>-10,546</b>	<b>-18,636</b>	<b>-135,638</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>344,780</b>	<b>75,337</b>	<b>195,690</b>	<b>615,807</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 238,324</b>	<b>\$ 64,791</b>	<b>\$ 177,054</b>	<b>\$ 480,169</b>

See Accompanying Notes to Financial Statements.

# HESPERIA COMMUNITY SCHOOLS

## Fund Financial Statements

### RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ -135,638</b>
Amounts reported for governmental activities in the statement of activities are different because:	
- Change in compensated absences are not reflected in the government funds report	-203,276
- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	-469,635
Capital Outlay	<u>287,092</u>
	-182,543
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	182,600
- Loan proceeds are recorded as an other financing source in governmental funds. These are recorded as a liability and not included in the statement of activities.	-287,092
- Repayments of bond principal and teacher buy-outs are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>370,762</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ -255,187</u></u></b>

See Accompanying Notes to Financial Statements.

**STATEMENT OF FIDUCIARY NET ASSETS****JUNE 30, 2006**

	<u>Agency Fund- Student Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 59,121
Accounts Receivable	---
Due from Other Funds	<u>26</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 59,147</b></u>
 <b>LIABILITIES</b>	
Due to Other Funds	\$ 269
Due to Others	3,644
Due to Student Groups	<u>55,234</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 59,147</b></u>

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

**A. REPORTING ENTITY:** Hesperia Community School is located in Newaygo and Oceana Counties in Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

### B. BASIS OF PRESENTATION

#### District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

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by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**District-Wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Fund Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

## GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.



### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1999 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

#### FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

**C. BUDGETS AND BUDGETARY ACCOUNTING:** The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

**D. PROPERTY TAXES:** Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

**E. INVENTORIES:** Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

**F. CASH EQUIVALENTS:** The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

**G. FINANCIAL INSTRUMENTS:** The School does not require collateral to support financial instruments subject to credit risk.

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**H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES:** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

**I. FUND EQUITY:** Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

**J. CAPITAL ASSETS:** Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

**K. LONG-TERM OBLIGATIONS:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**L. TOTAL COLUMNS ON COMBINED STATEMENTS:** Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**M. STATE CATEGORICAL REVENUE:** The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

**N. RISK MANAGEMENT:** The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**O. ESTIMATES:** The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

**A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS:** The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

**B. TYPES OF DEPOSITS AND INVESTMENTS:** The School District maintains all of its cash deposits in five financial institutions. At June 30, 2006, the book value of the School District's deposits was \$655,758 and the bank balance was \$558,073. Of the bank balance, \$123,523 was covered by federal depository insurance and \$434,550 was uninsured and uncollateralized.

**CASH EQUIVALENTS:** There is \$3,167 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	<u>Market Value</u>
<u>\$ 3,167</u>	<u>\$ 3,167</u>

Total Cash:

Petty Cash	\$ 132
Deposits in Financial Institutions	652,459
Deposits in MLAF Account	<u>3,167</u>
	<u>\$ 655,758</u>

### NOTE 3 - INVENTORY

The \$51,947 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2006.

There is \$1,860 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2006, was \$53,807.

# HESPERIA COMMUNITY SCHOOLS

## Notes To Financial Statements

### NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2006, is comprised of the following:

#### General Fund

State of Michigan - State Aid	\$ 1,349,076
- Title I	244
- Title II-A	1,547
- English Literacy	944
- DEQ	1,900
- Title V	200
Newago RESA	31,005
Other	<u>18,468</u>
<u>Total Due From Other Governmental Units</u>	<u>\$ 1,403,384</u>

### NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2006, consisted of the following:

#### Due To:

General	\$ 269
Food Service	36,877
1999 Debt	35,920
Student Activities	<u>26</u>
	<u>\$ 73,092</u>

#### Due From:

Student Activities	\$ 269
General	36,877
General	35,920
General	<u>26</u>
	<u>\$ 73,092</u>

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## NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ ---	\$ ---	\$ ---	\$ ---
Capital assets being depreciated:				
Building and building improvements	8,770,851	---	44,434	8,726,417
Buses and other vehicles	1,192,258	254,844	205,762	1,241,340
Furniture and equipment	3,660,108	32,248	58,251	3,634,105
Subtotal	13,623,217	287,092	308,447	13,601,862
Accumulated depreciation:				
Building and building improvements	2,316,983	163,496	16,380	2,464,099
Buses and other vehicles	903,624	95,867	205,762	793,729
Furniture and equipment	2,761,896	166,048	42,081	2,885,863
Subtotal	5,982,503	425,411	264,223	6,143,691
Net capital assets being depreciated	7,640,714	-138,319	44,224	7,458,171
Net capital assets	\$ 7,640,714	\$ -138,319	\$ 44,224	\$ 7,458,171

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

## NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2006, of \$545,674 represents the unpaid portion of teacher contracts for the 2005-06 school year. On these salaries there are also fringe benefits payable at year-end totaling \$383,536.

## NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2006, long-term debt changed as follows:

# HESPERIA COMMUNITY SCHOOLS

## Notes To Financial Statements

### NOTE 8 - LONG-TERM DEBT (CONTINUED)

	Balance 7/1/05	Additional Debt	2005-06 Payments	Balance 6/30/06
Durant Building Project	\$ 56,302	\$ ---	\$ 11,415	\$ 44,887
Durant Bond Issue	82,522	---	29,581	52,941
1999 Bond Issue	6,455,000	---	265,000	6,190,000
Bus, Boiler and Tech. Notes	39,766	287,092	39,766	287,092
School Bond Loan	1,307,433	---	---	1,307,433
	\$ 7,941,023	\$ 287,092	\$ 345,762	\$ 7,882,353
Teacher Buy-Outs	120,000	200,000	25,000	295,000
Severance Pay	12,180	70	---	12,250
Compensated Absences	38,361	3,206	---	41,567
	<u>\$ 8,111,564</u>	<u>\$ 490,368</u>	<u>\$ 370,762</u>	<u>\$ 8,231,170</u>

Amounts needed over the next five years are for debt principal payments are as follows:

	Durant Bonds	1999 Refunding Bonds	School Bond Loan	Bus and Technology Notes	Other	Durant Building Project	Total
2006-07	\$ 6,548	\$ 280,000	\$ ---	\$ 54,346	\$ 88,817	\$ 12,014	\$ 441,725
2007-08	6,862	300,000	---	54,493	80,000	12,613	453,968
2008-09	7,189	315,000	---	56,884	80,000	13,212	472,285
2009-10	7,531	335,000	---	59,381	50,000	7,048	458,960
2010-11	7,889	345,000	---	61,988	50,000	---	464,877
2011-Maturity	16,922	4,615,000	1,307,433	---	---	---	5,939,355
	<u>\$ 52,941</u>	<u>\$ 6,190,000</u>	<u>\$ 1,307,433</u>	<u>\$ 287,092</u>	<u>\$ 348,817</u>	<u>\$ 44,887</u>	<u>\$ 8,231,170</u>

**A. 1999 REFUNDING BONDS:** The bonds are dated February 3, 1999, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 1999, and ending May 1, 2025. Interest rates vary from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. The remaining bonds payable at June 30, 2006, were \$6,190,000.

**B. BUS, BOILER AND TECHNOLOGY INSTALLMENT PURCHASE AGREEMENTS:** The School District has the following notes resulting from the purchase of buses, boilers and technology.

1. This note was executed February 27, 2002, for the purchase of two buses and the purchase and installation of a new boiler. The note required 5 annual payments of \$41,037.74, which included principal and interest, beginning June 30, 2002 and concluding June 30, 2006. Interest was calculated at 3.29%. The balance due on this note at June 30, 2006 was \$0.

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2. This note was executed February 15, 2006 for the purchase of 4 buses. The note requires 5 annual payments of \$57,598.43, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 4.44%. The original note balance was \$254,844, and the balance due on June 30, 2006 was \$254,844.
  3. This note was executed February 15, 2006 for the purchase of computer technology. The note requires 5 annual payments of \$7,109.61, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 3.98%. The original note balance was \$32,248, and the balance due on June 30, 2006 was \$32,248.

**C. COMPENSATED ABSENCES:** Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of \$41,567 unused vacation leave exists at June 30, 2006.

**D. SCHOOL BOND LOANS:** The School District approved borrowing from the School Bond Loan Fund to help pay the 1995 School Building and Site bond loan payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments. The loans are dated March 18, 1996. Repayment of the debt is expected to start in the fiscal year ended June 30, 2007. Interest is calculated at a variable rate, currently 4.5%. Total amount outstanding at June 30, 2006, was \$1,307,433.

**E. DURANT BONDS:** The bonds are dated November 24, 1998, with principal and interest due annually on May 15 beginning in 1999 and ending in 2013. The proceeds from these bonds were used for classroom construction. Interest is at 4.761353%. Bond payments are funded by state-aid revenue. The balance due at June 30, 2006 was \$52,941.

**F. TEACHER BUY-OUT:** The School District approved the buy-out of five staff people during the fiscal year as a retirement incentive. The maximum to be paid is \$10,000 for each person. The people have an option on when the payment is to be made. Total buy-outs payable at June 30, 2006, was \$295,000.

**G. SEVERANCE PAY:** After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$30 for each year of service. Total severance pay payable at June 30, 2006, was \$12,250.

**H. DURANT BUILDING PROJECT:** The School District borrowed \$110,000 for the completion of classroom construction on January 28, 2000. Under the terms of this agreement twenty semi-annual payments of principal and interest will be made on June 30 and December 31 through December 31, 2009. Payments are \$7,096.94 and include interest at 5.2%. The balance due at June 30, 2006, was \$44,887.



### NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2006, the rate was 16.34%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2006, the School District contributed \$891,372 to the Retirement System, which is 16.34% of current fiscal year covered compensation of \$5,455,153. The rate for the current contract year is 16.34%, which the School District paid on all covered compensation. Employees contributed an additional \$210,604 or 3.87% of eligible wages of \$5,441,964. Total wages of the district totaled \$5,792,382.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2004, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$46.3 billion.

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The total pension benefit obligation has increased by \$1.5 billion from September 30, 2003 to September 30, 2004.

The System's net assets available for benefits on that date (valued at market) were \$38.8 billion leaving an unfunded actuarial accrued liability of \$7.5 billion. Ten-year historical trend information is presented in the System's September 30, 2005, comprehensive annual financial report.

#### **NOTE 10 - BUDGETARY ACCOUNTING**

During the year ended June 30, 2006, the School incurred expenditures that were in excess of the amounts appropriated in the following:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Food Service	\$ 441,729	\$ 455,973	\$ 14,244
General Fund			
Pupil	341,703	346,814	5,111
Operations	874,690	874,783	93

#### **NOTE 11 - FUND BALANCE**

Components of Fund Balance at June 30, 2006, are as follows:

- A) \$51,947 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$1,860 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- C) A portion of the unreserved fund balance is designated for anticipated major expenses. The Board has elected to set aside monies as follows:

Track Replacement	\$ 20,000
Band Uniforms	<u>13,269</u>
	<u>\$ 33,269</u>

- D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2006, Unreserved General Fund Balance of \$153,108 compares to June 30, 2005, Unreserved General Fund Balance of \$264,889.

### NOTE 12 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On February 3, 1999, Hesperia Community Schools issued \$6,895,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.3% to 5.0% to advance refund \$6,580,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 6.6%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

### NOTE 13 – DEFERRED REVENUE

Components of deferred revenue (cash received for future program expenditures) include the following:

<u>Program</u>	
Adult Education	\$ 393,770
At Risk	6,426
Enrichment	2,932
Local Grants	<u>33,807</u>
	<u>\$ 436,935</u>

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## **REQUIRED SUPPLEMENTAL INFORMATION**

# HESPERIA COMMUNITY SCHOOLS

## Budgetary Comparison Schedule

### GENERAL FUND

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Local Sources	\$ 767,315	\$ 991,176	\$ 979,700	\$ -11,476
State Sources	7,167,526	7,521,862	7,498,959	-22,903
Federal Sources	733,802	759,236	706,927	-52,309
Miscellaneous	81,276	287,092	287,092	---
<b>TOTAL REVENUE</b>	<b>8,749,919</b>	<b>9,559,366</b>	<b>9,472,678</b>	<b>-86,688</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic Programs	4,024,812	4,390,596	4,329,056	61,540
Added Needs	1,554,734	1,492,996	1,443,146	49,850
Adult/Continuing Education	260,162	180,181	156,473	23,708
Supporting Services				
Pupil	267,477	341,703	346,814	-5,111
Instructional Staff	134,312	302,777	277,775	25,002
Administration	659,252	491,233	489,613	1,620
Business Services	251,173	508,445	506,278	2,167
Operations	785,552	874,690	874,783	-93
Transportation	523,122	835,310	810,636	24,674
Community Services	---	86,876	86,514	362
Debt Service	51,143	51,143	51,143	---
Other Uses - Operating Transfers	151,339	221,634	206,903	14,731
<b>TOTAL EXPENDITURES</b>	<b>8,663,078</b>	<b>9,777,584</b>	<b>9,579,134</b>	<b>198,450</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	86,841	-218,218	-106,456	111,762
<b>BUDGETARY FUND BALANCE - JULY 1, 2005</b>	344,780	344,780	344,780	---
<b>BUDGETARY FUND BALANCE - JUNE 30, 2006</b>	<b>\$ 431,621</b>	<b>\$ 126,562</b>	<b>\$ 238,324</b>	<b>\$ 111,762</b>

## FOOD SERVICE

**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Local Sources	\$ 140,502	\$ 134,687	\$ 136,584	\$ 1,897
State Sources	33,975	33,254	33,254	---
Federal Sources	232,650	266,735	275,589	8,854
Miscellaneous	---	---	---	---
<b>TOTAL REVENUE</b>	<b>407,127</b>	<b>434,676</b>	<b>445,427</b>	<b>10,751</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	413,727	441,729	455,973	-14,244
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>413,727</b>	<b>441,729</b>	<b>455,973</b>	<b>-14,244</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>-6,600</b>	<b>-7,053</b>	<b>-10,546</b>	<b>-3,493</b>
<b>BUDGETARY FUND BALANCE - JULY 1, 2005</b>	<b>75,337</b>	<b>75,337</b>	<b>75,337</b>	<b>---</b>
<b>BUDGETARY FUND BALANCE - JUNE 30, 2006</b>	<b>\$ 68,737</b>	<b>\$ 68,284</b>	<b>\$ 64,791</b>	<b>\$ -3,493</b>

**OTHER SUPPLEMENTAL INFORMATION**

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## **GENERAL FUND**



# HESPERIA COMMUNITY SCHOOLS

General Fund

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 702,645	\$ 701,530	\$ -1,115
Interest and Penalties - Delinquent Taxes	---	---	---
Tuition, Patrons	2,275	4,155	1,880
Sale of School Property	---	5,239	5,239
Contributions from Private Sources	130,178	96,369	-33,809
Interest Earned	15,000	17,650	2,650
Community Service	23,564	22,956	-608
Transportation	18,000	27,076	9,076
Reimbursements	91,781	94,252	2,471
Other	7,733	10,473	2,740
Drivers Education Fees	---	---	---
TOTAL REVENUE FROM LOCAL SOURCES	991,176	979,700	-11,476
STATE SOURCES			
Non Plaintiff Durant Settlement	12,917	12,917	---
State Aid	6,814,463	6,816,945	2,482
Special Education	110,377	110,377	---
Adult Education	266,696	238,147	-28,549
DEQ Grant	---	9,900	9,900
Court Placed	35,182	35,182	---
At Risk	280,225	273,747	-6,478
Vocational Education	2,002	1,744	-258
TOTAL REVENUE FROM STATE SOURCES	\$ 7,521,862	\$ 7,498,959	\$ -22,903

	Budget	Actual	Favorable <Unfavorable>
<b>FEDERAL SOURCES</b>			
Teacher Training and Recruiting	\$ 94,618	\$ 93,537	\$ -1,081
Title I	368,710	326,245	-42,465
Adult Basic Education	48,900	48,900	---
Title V	12,872	12,110	-762
IDEA	150,000	150,000	---
Homeland Security Grant	---	5,336	5,336
Technology Literacy Challenge	6,123	6,123	---
ESL Literacy	18,900	18,900	---
Schools and Roads	14,825	14,824	-1
Comprehensive School Reform	27,812	27,812	---
SPSR Grant	16,476	3,140	-13,336
<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<b>759,236</b>	<b>706,927</b>	<b>-52,309</b>
<b>TOTAL REVENUE AND INCOMING TRANSFERS</b>	<b>\$ 9,272,274</b>	<b>\$ 9,185,586</b>	<b>\$ -86,688</b>
<b>EXPENDITURES</b>			
<b>Instruction</b>			
<b>BASIC PROGRAMS</b>			
Elementary School	\$ 1,416,944	\$ 1,400,700	\$ 16,244
Middle School	1,586,219	1,567,586	18,633
High School	1,387,433	1,360,770	26,663
<b>TOTAL BASIC PROGRAMS</b>	<b>4,390,596</b>	<b>4,329,056</b>	<b>61,540</b>
<b>ADDED NEEDS</b>			
Special Education	1,001,584	962,540	39,044
Compensatory Education	490,703	480,606	10,097
Vocational Education	709	---	709
<b>TOTAL ADDED NEEDS</b>	<b>\$ 1,492,996</b>	<b>\$ 1,443,146</b>	<b>\$ 49,850</b>

# HESPERIA COMMUNITY SCHOOLS

## General Fund

### STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>
<b>EXPENDITURES (CONTINUED)</b>			
<b>Instruction - Continued</b>			
ADULT/CONTINUING EDUCATION			
Adult Basic Education	\$ 180,181	\$ 156,473	\$ 23,708
High School Completion	---	---	---
TOTAL ADULT/CONTINUING EDUCATION	180,181	156,473	23,708
<b>Total Instruction</b>	6,063,773	5,928,675	135,098
<b>Supportive Services</b>			
PUPIL			
Guidance	275,766	281,271	-5,505
Health Services	27,312	25,488	1,824
Social Work Services	38,625	40,055	-1,430
TOTAL PUPIL	341,703	346,814	-5,111
INSTRUCTIONAL STAFF			
Improvement of Instruction	57,320	38,625	18,695
Educational Media Services	109,505	110,505	-1,000
Supervision and Direction of Instruction	135,952	128,645	7,307
TOTAL INSTRUCTIONAL STAFF	302,777	277,775	25,002
ADMINISTRATION			
Board of Education	42,351	39,673	2,678
Executive Administration	132,165	132,030	135
Principals Offices	313,800	314,918	-1,118
Other School Administration	2,917	2,992	-75
TOTAL ADMINISTRATION	\$ 491,233	\$ 489,613	\$ 1,620

	Budget	Actual	Favorable <Unfavorable>
<b>BUSINESS SERVICES</b>			
Fiscal Services	\$ 171,465	\$ 171,676	\$ -211
Internal Services	11,620	13,446	-1,826
Other Business Services	103,943	100,970	2,973
Operating Building Services	874,690	874,783	-93
Security Services	20,786	20,777	9
Pupil Transportation Services	835,310	810,636	24,674
Staff/Personnel Services	632	631	1
Information Management Services	199,999	198,778	1,221
<b>TOTAL BUSINESS SERVICES</b>	<b>2,218,445</b>	<b>2,191,697</b>	<b>26,748</b>
<b>Total Supportive Services</b>	<b>3,354,158</b>	<b>3,305,899</b>	<b>48,259</b>
<b>Community Services</b>			
Community Recreation	24,586	24,437	149
Custody and Care of Children	57,375	56,865	510
Other Community Services	4,915	5,212	-297
<b>Total Community Services</b>	<b>86,876</b>	<b>86,514</b>	<b>362</b>
<b>Debt Service</b>			
Durant Loan	11,413	11,413	---
Bus Loans	24,493	24,493	---
Other Loans	15,237	15,237	---
<b>Total Debt Service</b>	<b>51,143</b>	<b>51,143</b>	<b>---</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 9,555,950</b>	<b>\$ 9,372,231</b>	<b>\$ 183,719</b>
<b>EXCESS REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-283,676</b>	<b>-186,645</b>	<b>97,031</b>
<b>OTHER FINANCING SOURCES &lt;USES&gt;</b>			
Loan Proceeds	287,092	287,092	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-221,634	-206,903	14,731
<b>TOTAL OTHER FINANCING SOURCES&lt;USES&gt;</b>	<b>65,458</b>	<b>80,189</b>	<b>14,731</b>
<b>EXCESS REVENUE AND OTHER FINANCING SOURCES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>\$ -218,218</b>	<b>-106,456</b>	<b>\$ 111,762</b>
<b>FUND BALANCE - JULY 1, 2005</b>		<b>344,780</b>	
<b>FUND BALANCE - JUNE 30, 2006</b>		<b>\$ 238,324</b>	

**SPECIAL REVENUE FUNDS**

## COMBINING BALANCE SHEET

JUNE 30, 2006

	Food Service Fund	Athletic Fund	Totals
<b>ASSETS</b>			
Cash In Bank	\$ 38,396	\$ ---	\$ 38,396
Due From Other Governmental Units	---	---	---
Due From Other Funds	36,877	---	36,877
Prepaid Expenses	---	---	---
Inventory	1,860	---	1,860
<b>TOTAL ASSETS</b>	<b>\$ 77,133</b>	<b>\$ ---</b>	<b>\$ 77,133</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	12,342	---	12,342
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
<b>TOTAL LIABILITIES</b>	<b>12,342</b>	<b>---</b>	<b>12,342</b>
<b>FUND EQUITY</b>			
Fund Balance - Reserved for Inventory	1,860	---	1,860
Fund Balance - Unreserved	62,931	---	62,931
<b>TOTAL FUND EQUITY</b>	<b>64,791</b>	<b>---</b>	<b>64,791</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 77,133</b>	<b>\$ ---</b>	<b>\$ 77,133</b>

# HESPERIA COMMUNITY SCHOOLS

## Special Revenue Funds

### COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
<b>REVENUE</b>			
Food Services			
Hot Lunch Receipts - Students	\$ 60,250	\$ 62,156	\$ 1,906
- Adults	2,637	2,636	-1
- Ala Carte	50,900	50,900	---
- Milk	---	---	---
Breakfast	5,900	5,888	-12
State Aid	33,254	33,254	---
Federal Aid	250,085	250,110	25
Federal USDA Commodities in Kind	16,650	25,479	8,829
Other Income	14,000	14,012	12
Interest Income	1,000	992	-8
Athletic Activities			
Admission to Games	---	---	---
<b>TOTAL REVENUE</b>	<b>434,676</b>	<b>445,427</b>	<b>10,751</b>
<b>EXPENDITURES</b>			
Salaries	141,481	147,413	-5,932
Fringe Benefits	74,436	75,747	-1,311
Professional Services	32,412	31,873	539
Food and Supplies	161,550	170,508	-8,958
Travel and Conferences	---	---	---
Miscellaneous	2,458	2,298	160
Telephone	700	508	192
Postage	1,000	496	504
Repairs	2,782	2,744	38
Utilities and Waste	9,500	9,523	-23
Capital Outlay	15,410	14,863	547
<b>TOTAL EXPENDITURES</b>	<b>\$ 441,729</b>	<b>\$ 455,973</b>	<b>\$ -14,244</b>

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 60,250	\$ 62,156	\$ 1,906
---	---	---	2,637	2,636	-1
---	---	---	50,900	50,900	---
---	---	---	---	---	---
---	---	---	5,900	5,888	-12
---	---	---	33,254	33,254	---
---	---	---	250,085	250,110	25
---	---	---	16,650	25,479	8,829
---	---	---	14,000	14,012	12
---	---	---	1,000	992	-8
26,470	26,710	240	26,470	26,710	240
<b>26,470</b>	<b>26,710</b>	<b>240</b>	<b>461,146</b>	<b>472,137</b>	<b>10,991</b>
136,912	134,578	2,334	278,393	281,991	-3,598
36,350	35,394	956	110,786	111,141	-355
23,161	23,087	74	55,573	54,960	613
8,138	9,525	-1,387	169,688	180,033	-10,345
18,400	22,665	-4,265	18,400	22,665	-4,265
6,352	5,536	816	8,810	7,834	976
---	---	---	700	508	192
---	---	---	1,000	496	504
610	632	-22	3,392	3,376	16
---	---	---	9,500	9,523	-23
2,197	2,196	1	17,607	17,059	548
<b>\$ 232,120</b>	<b>\$ 233,613</b>	<b>\$ -1,493</b>	<b>\$ 673,849</b>	<b>\$ 689,586</b>	<b>\$ -15,737</b>



# HESPERIA COMMUNITY SCHOOLS

## Special Revenue Funds

### COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	\$ -7,053	\$ -10,546	\$ -3,493
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ -7,053</u>	-10,546	<u>\$ -3,493</u>
FUND BALANCE - BEGINNING OF YEAR		<u>75,337</u>	
FUND BALANCE - END OF YEAR		<u>\$ 64,791</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -205,650	\$ -206,903	\$ -1,253	\$ -212,703	\$ -217,449	\$ -4,746
---	206,903	206,903	---	206,903	206,903
---	---	---	---	---	---
---	206,903	206,903	---	206,903	206,903
<u>\$ -205,650</u>	---	<u>\$ 205,650</u>	<u>\$ -212,703</u>	-10,546	<u>\$ 202,157</u>
	---			75,337	
	<u>\$ ---</u>			<u>\$ 64,791</u>	

**DEBT RETIREMENT FUNDS**

**COMBINING BALANCE SHEET**

**JUNE 30, 2006**

	1995 Debt	1999 Debt	Durant	Totals
<b>ASSETS</b>				
Cash in Bank	\$ 993	\$ 145,385	\$ ---	\$ 146,378
Due from other Funds	---	35,920	---	35,920
Due from other Governments		277		277
Accounts Receivable	---	---	---	---
<b>TOTAL ASSETS</b>	<b>\$ 993</b>	<b>\$ 181,582</b>	<b>\$ ---</b>	<b>\$ 182,575</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	---
Due to Other Governments	---	5,521	---	5,521
<b>TOTAL LIABILITIES</b>	<b>---</b>	<b>5,521</b>	<b>---</b>	<b>5,521</b>
<b>FUND EQUITY</b>				
Fund Balance	993	176,061	---	177,054
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 993</b>	<b>\$ 181,582</b>	<b>\$ ---</b>	<b>\$ 182,575</b>

# HESPERIA COMMUNITY SCHOOLS

## Debt Retirement Funds

### STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Durant			1995		
	Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
<b>REVENUE</b>						
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---	---	---	---
Earned Interest	---	---	---	---	38	38
State Aid Revenue	---	42,805	42,805	---	---	---
Miscellaneous	---	---	---	---	---	---
<b>TOTAL REVENUE</b>	---	<b>42,805</b>	<b>42,805</b>	---	<b>38</b>	<b>38</b>
<b>EXPENDITURES</b>						
Principal on Bonds	---	29,581	-29,581	---	---	---
Interest on Bonds	---	13,224	-13,224	---	---	---
Interest on School Bond Loan Fund	---	---	---	---	---	---
Agent Fees and Other	---	---	---	---	---	---
<b>TOTAL EXPENDITURES</b>	---	<b>42,805</b>	<b>-42,805</b>	---	---	---
<b>EXCESS REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	---	---	---	---	<b>38</b>	<b>38</b>
<b>OTHER FINANCING SOURCES</b>						
Loan Proceeds	---	---	---	---	---	---
Operating Transfers In	---	---	---	---	---	---
Operating Transfers Out	---	---	---	---	-2,749	-2,749
<b>TOTAL OTHER FINANCING SOURCES</b>	---	---	---	---	<b>-2,749</b>	---
<b>EXCESS REVENUE AND OTHER SOURCES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<u>\$ ---</u>	---	<u>\$ ---</u>	<u>\$ ---</u>	<b>-2,711</b>	<u>\$ -2,711</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>		<u>---</u>			<u>3,704</u>	
<b>FUND BALANCE - END OF YEAR</b>		<u>\$ ---</u>			<u>\$ 993</u>	

1999			Totals		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 771,645	\$ 768,252	\$ -3,393	\$ 771,645	\$ 768,252	\$ -3,393
---	---	---	---	---	---
---	---	---	---	---	---
1,000	3,969	2,969	1,000	4,007	3,007
---	---	---	---	42,805	42,805
---	---	---	---	---	---
<b>772,645</b>	<b>772,221</b>	<b>-424</b>	<b>772,645</b>	<b>815,064</b>	<b>42,419</b>
265,000	265,000	---	265,000	294,581	-29,581
300,575	300,575	---	300,575	313,799	-13,224
211,437	225,000	-13,563	211,437	225,000	-13,563
800	320	480	800	320	480
<b>777,812</b>	<b>790,895</b>	<b>-13,083</b>	<b>777,812</b>	<b>833,700</b>	<b>-55,888</b>
-5,167	-18,674	-13,507	-5,167	-18,636	-13,469
---	---	---	---	---	---
2,750	2,749	-1	2,750	2,749	-1
---	---	---	---	-2,749	-2,749
2,750	2,749	-1	2,750	---	-2,750
<b>\$ -2,417</b>	-15,925	<b>\$ -13,508</b>	<b>\$ -2,417</b>	-18,636	<b>\$ -16,219</b>
	191,986			195,690	
	<b>\$ 176,061</b>			<b>\$ 177,054</b>	

**AGENCY FUNDS**

## STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2006

### ASSETS

Cash in Bank	\$ 59,121
Due From General Fund	<u>26</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 59,147</u></b>

### LIABILITIES

Due to General Fund	\$ 269
Due to Students Groups	55,234
Due to Others	<u>3,644</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 59,147</u></b>

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2006

	Balance 6/30/05	Receipts	Disbursements	Balance 6/30/06
<b>ASSETS</b>				
Cash	\$ 61,405	\$ 126,312	\$ 128,596	\$ 59,121
Due from General Fund	---	26	---	26
<b>TOTAL ASSETS</b>	<b><u>\$ 61,405</u></b>	<b><u>\$ 126,338</u></b>	<b><u>\$ 128,596</u></b>	<b><u>\$ 59,147</u></b>
<b>LIABILITIES</b>				
Due to General Fund	\$ 4	\$ 265	\$ ---	\$ 269
Due to Others				
Community Education	4,789	1,360	2,505	3,644
Bus Drivers	74	---	74	---
Total Due to Others	<u>4,863</u>	<u>1,360</u>	<u>2,579</u>	<u>3,644</u>
Student Groups				
High School Internal	9,192	13,342	14,891	7,643
Middle School Internal	2,398	964	307	3,055
Elementary Internal	1,858	3,077	2,968	1,967
Central Office Internal	<u>43,090</u>	<u>107,330</u>	<u>107,851</u>	<u>42,569</u>
Total Student Groups	<u>56,538</u>	<u>124,713</u>	<u>126,017</u>	<u>55,234</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 61,405</u></b>	<b><u>\$ 126,338</u></b>	<b><u>\$ 128,596</u></b>	<b><u>\$ 59,147</u></b>



# HESPERIA COMMUNITY SCHOOLS

Agency Funds

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Balance 6/30/05	Receipts	Disbursements	Balance 6/30/06
<b>Elementary</b>				
Elementary Art Mural	\$ 207	\$ ---	\$ ---	\$ 207
Elementary Library Fund	403	---	---	403
Elementary Playground	268	---	---	268
Elementary School Store	234	562	532	264
Elementary Student Council	30	---	---	30
Elementary Yearbook	223	---	---	223
Boys Youth Basketball	38	---	---	38
Girls Youth Basketball	4	---	---	4
Class of 2016	---	20	20	---
<b>Middle School</b>				
Student Council - 5th and 6th	203	---	---	203
Student Council - 7 <sup>th</sup> and 8th	721	---	---	721
8 <sup>th</sup> Grade Reserve	800	---	---	800
6 <sup>th</sup> Grade Reserve	1,086	1,130	1,235	981
Amusement Park Physics	---	278	---	278
M.S. Resource Room	---	---	---	---
M.S. Combined Fund Raising	2,075	590	1,079	1,586
M.S. Rocketry Club	267	1,518	1,330	455
M.S. School Store	292	---	241	51
M.S. Track & Field	28	---	---	28
M.S. Wrestling	53	---	---	53
Extended Day Program	202	---	47	155
Extended Day Fishing Club	-5	5	---	---
Class of 2010	383	7,033	6,900	516
Class of 2011	470	7,598	6,748	1,320
Class of 2012	369	12,307	12,444	232
Class of 2013	---	678	435	243
<b>High School</b>				
Band	6,583	15,347	17,510	4,420
Art - High School	279	64	106	237
Choir	679	---	536	143
Color Guard	637	332	---	969
Drama	1,087	665	1,057	695
Forensics	863	---	---	863
H.S. Library	593	155	664	84
H.S. Pride	213	98	196	115
H.S. Scholarship Fund	500	625	875	250
H.S. Student Council	922	1,637	931	1,628

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Industrial Arts	\$ 548	\$ 858	\$ 448	\$ 958
Journalism	128	---	---	128
National Honor Society	327	123	123	327
Panther Yearbook	1,747	11,555	11,180	2,122
Ski Club	461	---	---	461
Spanish Club	2,014	1,384	3,378	20
Wild Joe Cappuccino Store	301	---	---	301
Class of 2005	132	---	132	---
Class of 2006	1,062	500	706	856
Class of 2007	1,652	4,268	4,771	1,149
Class of 2008	1,888	2,494	1,552	2,830
Class of 2009	986	1,420	736	1,670
<b>High School Athletics</b>				
Baseball Club	11	2,471	2,334	148
Cheerleaders	40	400	---	890
Cross Country	114	2,180	2,279	15
Football Club	---	2,003	---	2,003
Girls Softball	---	4,245	4,253	-8
Girls Varsity Basketball	224	611	150	685
Golf Team	735	8,415	8,394	756
H.S. Boys Track	276	---	---	276
H.S. Girls Track	211	---	200	11
Varsity Club	2,279	---	111	2,168
Varsity Wrestling	14	5,461	5,085	390
Volleyball Club	2,056	5,411	7,213	254
<b>Community Education</b>				
Community Ed. Art Club	109	---	---	109
C.E. Student Council	15	---	---	15
ESL Student Council	108	---	---	108
Experiential Education	45	---	---	45
Hesperia Alternative Ed	85	452	---	537
Panther Cub/Club Day Care	72	565	122	515
Youth Ed-Ventures	232	148	339	41
Fifty Plus Club	338	2,306	2,378	266
Mug Partnership Program	---	76	---	76
Interest Earned	3,723	-393	-919	4,249
Elementary Checking	1,858	3,077	2,968	1,967
Community Ed. Checking	4,789	1,360	2,505	3,644
High School Checking	9,192	13,342	14,891	7,643
Middle School Checking	2,398	964	307	3,055
Bus Drivers Checking	74	---	74	---
<b>TOTALS</b>	<b>\$ 61,401</b>	<b>\$ 126,338</b>	<b>\$ 128,596</b>	<b>\$ 59,143</b>

**STATEMENTS OF BONDED INDEBTEDNESS**

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## Statement Of Bonded Indebtedness

YEAR ENDED JUNE 30, 2006

### DURANT DEBT

<b>Durant Issue Dated November 28, 1998 in the amount of</b>	<b>\$ 129,170</b>
Less:	
Bonds paid in prior years	46,648
Bonds due and paid May 1, 2006	<u>29,581</u>
<b>Balance outstanding - June 30, 2006</b>	<b><u>\$ 52,941</u></b>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007	4.761%	\$ 2,521	\$ 6,548	\$ 9,069
2008	4.761%	2,209	6,862	9,071
2009	4.761%	1,882	7,189	9,071
2010	4.761%	1,540	7,531	9,071
2011	4.761%	1,182	7,889	9,071
2012	4.761%	806	8,264	9,070
2013	4.761%	412	8,658	9,070
		<u>\$ 10,552</u>	<u>\$ 52,941</u>	<u>\$ 63,493</u>

# HESPERIA COMMUNITY SCHOOLS

## Statement Of Bonded Indebtedness

### 1999 DEBT

Issue Dated February 3, 1999 in the amount of **\$ 6,895,000**

Less:

Bonds paid in prior years 440,000

Bonds due and paid May 1, 2006 265,000

**Balance outstanding - June 30, 2006** **\$ 6,190,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007	4.15%	\$ 284,033	\$ 280,000	\$ 564,033
2008	4.20%	271,922	300,000	571,922
2009	4.30%	258,850	315,000	573,850
2010	4.40%	244,708	335,000	579,708
2011	4.45%	229,661	345,000	574,661
2012	4.50%	214,222	345,000	559,222
2013	4.55%	198,725	340,000	538,725
2014	4.60%	183,170	340,000	523,170
2015	4.65%	167,561	335,000	502,561
2016	4.70%	151,900	335,000	486,900
2017	4.75%	136,190	330,000	466,190
2018	4.80%	120,433	330,000	450,433
2019	4.85%	104,631	325,000	429,631
2020	5.00%	88,625	325,000	413,625
2021	5.00%	72,500	320,000	392,500
2022	5.00%	56,375	325,000	381,375
2023	5.00%	40,125	325,000	365,125
2024	5.00%	24,000	320,000	344,000
2025	5.00%	8,000	320,000	328,000
		<u>\$ 2,855,631</u>	<u>\$ 6,190,000</u>	<u>\$ 9,045,631</u>

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## **FEDERAL FINANCIAL ASSISTANCE**

**FEDERAL AWARDS**

**RECONCILIATION OF REVENUE TO EXPENDITURES**

# HESPERIA COMMUNITY SCHOOLS

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2006

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I Carry-over	*84.010	515300506	\$ 40,521
- Title I	*84.010	515300405	271,406
- Title I	*84.010	615300506	328,188
- Title V	84.298	605200506	4,887
- Title V	84.298	505200506	7,985
- Title V Carry-over	84.298	402500405	3,823
- Adult Basic Education English Literacy	84.002	611206500175	18,900
- Adult Basic Education English Literacy	84.002	511205500174	21,296
- Adult Basic Education	84.002	61130610566	48,900
- Adult Basic Education	84.002	51130510565	54,630
- Comprehensive School Reform	84.332	418700405	181,423
- Title IIA Teacher Training and Recruiting	84.367	605200506	81,652
- Title IIA Teacher Training and Recruiting - Carry-over	84.367	605200506	12,966
- Title IIA Teacher Training and Recruiting	84.367	505200405	70,240
- Technology Literacy Challenge	84.318	542900405	7,928
- Technology Literacy Challenge	84.318	642900506	6,123
- Handicapped Preschool and School	84.027	60440SPSR	3,140
Pass Through Newago County ISD:			
- IDEA 94-142 Flow-through	84.027		150,000

### TOTAL U.S. DEPARTMENT OF EDUCATION

\* Designates a major program.



Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2005	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2006
\$ ---	\$ ---	\$ 40,521	\$ 40,521	\$ ---
271,406	77,611	77,611	---	---
---	---	285,480	285,724	244
271,406	77,611	403,612	326,245	244
---	---	3,925	4,125	200
---	---	7,985	7,985	---
3,823	1,459	1,459	---	---
3,823	1,459	13,369	12,110	200
---	---	17,956	18,900	944
21,296	7,035	7,035	---	---
---	---	48,900	48,900	---
54,630	9,940	9,940	--	---
75,926	16,975	83,831	67,800	944
153,610	6,852	34,664	27,812	---
---	---	79,024	80,571	1,547
---	---	12,966	12,966	---
70,240	17,124	17,124	---	---
70,240	17,124	109,114	93,537	1,547
7,928	1,928	1,928	---	---
---	---	6,123	6,123	---
7,928	1,928	8,051	6,123	---
---	---	3,140	3,140	---
---	---	150,000	150,000	---
---	---	153,140	153,140	---
	<b>\$ 121,949</b>	<b>\$ 805,781</b>	<b>\$ 686,767</b>	<b>\$ 2,935</b>

# HESPERIA COMMUNITY SCHOOLS

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2006

Program Title	Federal CFDA Contract Number	Program or Award Number	Amount
U.S. DEPARTMENT OF AGRICULTURE			
Pass Through Oceana County - Schools and Roads	10.665		\$ 14,824
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.550	Various	24,189
- Bonus Commodities	10.550	Various	1,290
Pass Through State Department of Education:			
- National School Lunch Program	10.555	61950,61960 51950,51960 61980	190,251
- Special Breakfast	10.553	51970,61970	59,859
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass through Michigan State Police - Homeland Security	16.007		5,336
TOTAL FEDERAL FINANCIAL ASSISTANCE			

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Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2005	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2006
\$ ---	\$ ---	\$ 14,824	\$ 14,824	\$ ---
---	---	24,189	24,189	---
---	---	1,290	1,290	---
---	---	25,479	25,479	---
---	---	190,251	190,251	---
---	---	59,859	59,859	---
---	---	<b>290,413</b>	<b>290,413</b>	---
---	---	<b>5,336</b>	<b>5,336</b>	---
	<b>\$ 121,949</b>	<b>\$ 1,101,530</b>	<b>\$ 982,516</b>	<b>\$ 2,935</b>

# **HESPERIA COMMUNITY SCHOOLS**

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## **FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2006**

### **NOTE 1 - MAJOR PROGRAMS**

The School has one major program - Title I. Total expenditures during the year ended June 30, 2006 were \$326,245.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2006 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2006 are recorded as deferred revenue.

### **NOTE 3 - ANNUAL GRANT REPORTS**

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

### **NOTE 4 - SCHEDULE PREPARATION**

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

### **NOTE 5 - INVENTORY VALUES**

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

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**SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES  
FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

**YEAR ENDED JUNE 30, 2006**

	<u>Financial Statement</u>	<u>Awards Schedule</u>
<b>DEPARTMENT OF EDUCATION GRANTS</b>		
GENERAL FUND		
Title I	\$ 326,245	\$ 326,245
IDEA 94-142 Flow-Through	150,000	150,000
Title V	12,110	12,110
Adult Basic Education	67,800	67,800
Comprehensive School Reform	27,812	27,812
Handicapped Preschool and School	3,140	3,140
Teacher Training and Recruiting	93,537	93,537
Technology Literacy Challenge	6,123	6,123
TOTAL	<u>686,767</u>	<u>686,767</u>
<b>DEPARTMENT OF AGRICULTURE GRANTS</b>		
SCHOOL LUNCH FUND		
Commodities	25,479	25,479
Federal Aid	<u>250,110</u>	<u>250,110</u>
SUB-TOTAL	275,589	275,589
GENERAL FUND		
Schools and Roads	<u>14,824</u>	<u>14,824</u>
TOTAL	<u>290,413</u>	<u>290,413</u>
<b>DEPARTMENT OF HOMELAND SECURITY GRANT</b>		
GENERAL FUND		
Homeland Security	<u>5,336</u>	<u>5,336</u>
<b>GRAND TOTAL</b>	<u><b>\$ 982,516</b></u>	<u><b>\$ 982,516</b></u>

3775 Kimmel Road  
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax  
Email: kldrake@voyager.net

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hesperia Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hesperia Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC  
Certified Public Accountant

August 10, 2006

3775 Kimmel Road  
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax  
Email: [kldrake@voyager.net](mailto:kldrake@voyager.net)

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

Compliance

We have audited the compliance of Hesperia Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Hesperia Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hesperia Community School's management. Our responsibility is to express an opinion on Hesperia Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hesperia Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hesperia Community School's compliance with these requirements.

In our opinion, Hesperia Community School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.



The management of Hesperia Community School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hesperia Community School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, PC  
Certified Public Accountant

August 10, 2006

# **HESPERIA COMMUNITY SCHOOLS**

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## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2006**

### **Summary of Auditor's Results**

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hesperia Community Schools had one major program - Title I.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

### **Findings Related to the Financial Statement**

NONE

### **Findings and Questioned Costs for Federal Awards**

NONE

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## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2006**

There were no prior audit findings.

**Karl L. Drake, P.C.**  
**Certified Public Accountant**

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**3775 Kimmel Road  
Horton, Michigan 49246**

**(517) 937-9333 Phone / 563-2552 Fax  
Email: [kldrake@voyager.net](mailto:kldrake@voyager.net)**

August 10, 2006

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools for the year ended June 30, 2006 and have issued our report thereon dated August 10, 2006. In planning and performing our audit of the financial statements, we considered the School's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of Hesperia Community Schools is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations and to make suggestions to improve upon the existing internal control structure.

## **FINANCIAL OVERVIEW**

### Fund Financial Statements

The General Fund finished the year with a fund balance of \$238,324. This is a decrease of \$106,456 from the prior year balance. Total General Fund revenue decreased by approximately \$285,000, and expenditures decreased by approximately \$140,000. The District has reduced the General Fund balance by over \$350,000 over the past two years. The District continues to be in very challenging financial health, and the budget needs to be a balanced budget going forward to sustain financial viability.

The cafeteria fund ended with a fund balance of \$64,791, which is a decrease of \$10,546 from the prior year balance. Both revenue and expenditures were approximately 10% higher than prior year levels.

### District-Wide Statements

The Statement of Net Assets and Statement of Activities based on the total of all governmental funds shows the School District with total net assets of \$-391,967. This is a decrease of approximately \$255,000 from the prior year level. The primary reason for the reduction is depreciation of prior fixed asset purchases, and current fixed asset purchases being financed with additional debt.

The District has the following net asset make-up at June 30, 2006.

Invested in Capital Assets, net of related Debt	\$-424,182
Restricted for Debt Service	177,054
Unrestricted	-144,839

The negative balance in the Capital Asset line indicates that amounts owed in the various long-term debts of the District exceed the cost of those assets, less accumulated depreciation. Negative unrestricted net assets indicate that all current resources of the District are committed for future expenditures. The District needs to be very careful about long-term benefits offered to staff, and attempt to bring the unrestricted net assets back to a positive balance.

## **BUDGETING**

The Department of Education is scrutinizing more closely the area of budgeting. For years, they have monitored the expenditures for overspending. Now they are much more closely monitoring the revenue and fund balance aspects of budgeting as well. The District has historically done an adequate job of monitoring both revenue and expenditures on a periodic basis, and of making the necessary budget amendments. This practice now needs to be done more frequently, and receive high priority in order to be in compliance with State requirements.

## **FEDERAL GRANT BILLING**

During this past fiscal year, the federal grants, which are billed through the State of Michigan, were invoiced infrequently during the year. This revenue totals over \$600,000, and can be invoiced as frequently as desired. The billings are based on the monies that have previously been expended for federal grant programs. By invoicing monthly or bi-monthly, the cash flow position of the District would be improved, limiting the amount of borrowing currently necessary for cash flow.

## **1995 DEBT SERVICE FUND ACCOUNTS**

Over two years ago, the final payment on the 1995 Debt Obligation was made. At the time of the audit, the 1995 Debt Service bank account continues to maintain a balance. This account should be closed, and the balance transferred to the 1999 Debt Service account.

## **FUTURE CHALLENGES**

These are incredibly challenging times for school districts throughout Michigan. Hesperia Community Schools is in a very difficult financial situation. Retirement, health care, transportation, energy costs, etc. continue to increase at rapid rates. The State of Michigan has instituted an increase in per pupil funding which should help offset the cost increases if the student count remains stable.

The above comments are intended for the use of management and the Hesperia Community School Board of Education. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in dark ink, appearing to read "Karl L. Drake". The signature is written in a cursive, flowing style.

Karl L. Drake, CPA